FINANCIAL CO-OPERATION AND THE ALDRICH PLAN

American banking has made little use of the principle of coöperation, yet for a generation that principle has been the greatest single factor in American economics. The railroads with their traffic agreements, their community of interest arrangements, their purchases of connecting and even competing lines, have formed themselves into vast transportation systems, of higher efficiency than before. In manufacturing, the same company may own the ore, the steamships and railroads that carry it, and the mills in which ore becomes steel and steel becomes rails and girders. The industry has been integrated. Machinery, oil, tobacco, even the marketing of vegetables and fruit, are trades in which the principle of coöperation is applied.

American banks, however, remain independent, almost isolated, units. The effect of isolation has been heightened by the lack of power in any of the 23,000 units to issue a credit note. It is unnecessary to rehearse the arguments showing that our bank note currency is absolutely inelastic. Coöperation of a sort, there has always been. The relations of country banks with their city correspondents are personal, cordial, generally reliable, and useful on both sides. Yet there is not one country bank, however small, that has assurance that any correspondent, however large, is powerful enough to save it if it needs saving in a general panic. Nor is resort to the organization of the clearing houses new. Coöperating daily in the exchange of checks, the New York banks have used their clearing house to combine their reserves in crises since 1860, and the efficiency of the expedient seems not to increase. The banks of clearing house cities are coöperating for more and more of their daily transactions. In a few cities the clearing houses have fixed the rate of interest on deposits, and in many the rates for collecting country checks. Several clearing houses have established bureaus for the collection of out of town items. A most important example of coöperation is the appointment by some twelve clearing houses of examiners, who, with adequate staffs, examine all the member banks, and report to committees of the clearing houses. Hitherto, by comparison, banks have worked comparatively little together, but obviously the principle of coöperation is growing. The most recent example is the organization of Currency Associations for the possible utilization of the Aldrich-Vreeland Act.

A Plan for more Effective Coöperation

Senator Aldrich has presented to the National Monetary Commission a plan by which banks may coöperate much as they have on occasion coöperated through their clearing houses, but far more generally and effectively. The national banks are to organize the Reserve Association of America, with certain banking functions. Subscription to the stock of the Association is voluntary, but the amount for each bank that does subscribe is fixed at 20 per cent of its capital stock. There is no provision for withdrawal except that a liquidating bank is to be paid the book value of its Association stock. Of course bankers who wished to get out of the Reserve Association could liquidate, collect for their stock, and organize new banks that would not join the Association. One half only of the subscription is to be paid in at the outset, the rest is subject to call. The banks that take stock in the Association are to form local Associations, some of whose functions are similar to those exercised by clearing houses in 1907 and to the functions of the National Currency Association authorized by the Aldrich-Vreeland Act of 1908. The boards of directors will be thoroughly representative of the stockholding banks, for three fifths of the directors are to be chosen by majority vote of the member banks, each bank, large and small, casting a single vote.

Weight is thus properly given to the small banks. Numerically, at least, they are the predominating factor in the American system. Of 7173 national banks reporting last September, 4543 had each *less* than $100,000 capital.[1] No reform would be coöperative or practical without large and active representation of the small banks that finance the early processes of production. The plan clearly provides adequately for such representation. The remaining two fifths of the directors, however, are to be chosen by stock representation, each bank casting as many votes as it holds shares in the Association. This provision was doubtless framed with the complaint in mind that under the Aldrich-Vreeland Act a little bank has as much voting power as a large one. In the local Associations, the influence of the large banks will, of course, be felt even in the selection of the "popular" class of directors, and except for an occasional "insurgent" or "boss buster" movement, such banks will properly be accorded the leadership to which the experience and acquantance of their officers entitle them. Thus the boards will be representative and efficient.

[1] *Report of the Comptroller of the Currency,* 1910, p. 249.

The chief function of a local Association is to guarantee for a commission the commercial paper its members may wish to rediscount at the district branch of the Reserve Association. There will be fifteen districts and a branch of the Association in each. The directors of the branches also will be chosen by a plan giving weight both to numerical and stock representation. Each local Association will by majority vote of its own directors elect one member of the branch board. The directors so elected will be half of the board. Two thirds as many will be elected by stock representation, and with the first group will elect the remaining one sixth of the board. This last group will not be composed of bankers at all, but of men representing the "industrial, commercial and other interests of the district." At the branches the banks that hold stock in the Association can sell paper guaranteed by their local Association or can sell certain paper direct, as will appear later. The two bases of representation, numerical and financial, are continued in the election of the Board of Directors of the whole Association. The branch boards elect one member each, fifteen in all. Twelve more directors are chosen at an election held by representatives of the fifteen districts, each district casting as many votes as its member banks hold Reserve Association shares.

These two groups, with six ex-officio members; namely, the Governor of the Reserve Association, the two Deputy Governors, the Secretary of the Treasury, the Secretary of Commerce and Labor, and the Comptroller of the Currency, select twelve additional members, not bankers, to represent the other business interests of the country. These will complete a board of forty-five members. There can be no question as to the character and ability of the boards of the local Associations, of the branches or of the Reserve Association itself. The ablest bankers and other business men, where eligible, will deem it an honor to serve. Witness the character of men who have served on the various Clearing House Loan Committees. Politics will not enter into the elections, for the self interest of the banks will be involved in choosing bankers instead of politicians. The provision making legislators and congressmen ineligible is correct but probably unnecessary. The Governor and two Deputy Governors are chosen by the President of the United States from a list submitted by the directors. Even an erratic President, or one who would play politics, would have little opportunity for harm in making selections from such

a list. The Governor is removable for cause. The Deputies will be appointed for seven years. Further details of organization will appear in the discussion of the functions of the Reserve Association.

The Credit Facilities of the Reserve Association

The chief functions are two, the provision of credit facilities that shall be adequate at all times, and the provision of a currency that shall be responsive to business needs. The credit facilities consist mainly in arrangements for rediscounts by the banks that are stock-holders and depositors in the Association. These banks may sell to the Association paper arising out of commercial transactions. If the paper has been made thirty days before it is offered for rediscount, and when so offered has not more than twenty-eight days yet to run, the Association may buy it on the endorsement of the bank offering it. If the time is longer, the rediscounting bank must first obtain the guaranty of its local Association, except that the Reserve Association may, if it chooses, buy unquestioned acceptances.

By thus simply recognizing that banking is commerce and not stock jobbing, the author has removed from the minds of all who read his plan any impression that he was designing a scheme for the assistance of Wall Street. Of course, Wall Street has its functions. It has been called the longest street in the world, since it runs from ocean to ocean and we all live on it. Its operations must, however, be conducted without the Reserve Association, and its own bankers must be chary of the accommodation they extend to the Street, for its paper does not "arise out of commercial transactions," and can not be sold to the Association. In emergency, indeed, a bank might procure the discount of its own note on the guaranty of its local Association. For every $100 guaranteed, it would have to protect the local Association with securities worth $150, and these might, perhaps, be Wall Street securities. Such discounts could be obtained, however, only when the Governor and the Executive Committee, which includes the Comptroller of the Currency, believed that the public interests so required, and not even then unless the Secretary of the Treasury definitely concurred in the opinion of the Executive Committee. To save commerce from the losses in which it might become involved, the Reserve Association may sometimes help to save Wall

Street from a *débâcle*, but Wall Street cannot "make money" out of the activities of the Association.

Bank Accepted Bills

Not only does the Aldrich system favor commercial paper, but it seeks to introduce what is in this country almost a novel form. National banks are to be authorized to accept bills of exchange, to the extent of half their capitals. Now, the bill of exchange, while comparatively little used commercially in this country, is not unknown.

"In general, however, and with many exceptions, American manufacturers and merchants prefer not to give acceptances, or even notes. Apparently, they dislike to feel that their trade obligations must be settled on a fixed day, on penalty of discredit at the bank if they are disappointed in making collections and find themselves unable to take up their notes or acceptances. In a developing country like ours, trade is subject to many vicissitudes, and its course cannot be predicted with the accuracy possible in regions settled centuries ago. [In the Middle West] where the economic frontier was only yesterday, and farther west where it lies now, crop failures may keep even a solvent merchant from settling on the day. He prefers that his transactions be wholly with his jobbers; and, perhaps, while we are still in the period of development, it is better so. Renewals of trade obligations are necessary here, as they are not necessary abroad, and the very essence of the discount system based on the bill of exchange is that the bill will be paid when due. . . . . . The difference between the American and European systems is not dependent upon any point of law; the difference lies deeper, and goes to the fundamental difference in the economics of countries ages old and countries where the farmers and traders are still pushing the frontier back."[2]

With export bills, however, there is real need for the service of acceptance by national banks. In the cotton country, where the population is relatively poor and must market its crops as soon as possible, it is not easy for the banks to find the money to finance the movement. Now the acceptor of a bill is liable to the holder if the bill is not paid. Besides the guaranty involved in the acceptance, the fact that the accepting bank is willing to make such a guaranty implies that it knows the drawer and is convinced of the authenticity of the shipping documents attached to the draft and of the bona fide character of the whole transaction. A bank-accepted bill can therefore be sold readily, and to make bills saleable is the ordinary object of bank-acceptance.

In 1910 we exported raw cotton to the value of $530,824,000, and the right to accept the ninety-day cotton bills will be a decided

[2] "How European Banks Lend Money," by the writer, *Southwestern Banker*, January, 1911.

help. True, a $200,000 bank can at any time have outstanding only $100,000 of acceptances, but the bills will be paid within ninety days, and then the bank can accept further. In the season it will probably be able to extend $300,000 more accommodation than now, incidentally charging good commissions for lending its credit in the form of acceptances. If the custom of accepting becomes general, a discount market will develop. That is what metropolitan bankers hope for. They would rather invest surplus funds in bank-accepted bills than in call loans on the stock exchange, for the former will liquidate themselves, while the collection of the latter may produce a crisis. This is another demonstration that the system of Senator Aldrich is anything but a measure in aid of promotion, speculation and Wall Street.

Except for banks that the government will have to use in the smaller cities that have no association branches, the government will deposit all its money with the Association and make all its payments by check on the Association, a simple arrangement that will make Treasury operations as natural and as little disturbing to business as the transactions of any other large concern.

The Note Issues of the Association

The notes of the Association being receivable for all dues to the United States and to national banks are practically full legal tender. The circulation privileges will consist in part of privileges taken over from existing national banks, and in part of notes issued under a tax. The Association will for a year offer to take over the two per cent bonds held by national banks to secure circulation. The price at which it will take them over will undoubtedly be high enough so that the banks cannot afford to refuse it. With the bonds will come the privilege of issuing notes, and a national bank that retires any part of its circulation can never reissue it. This suggests, of course, the successful plan by which the notes of the Bank of England and the Reichsbank have gradually replaced the multifarious issues of English and German banks.

From time to time the Association will dispose of its government bonds, leaving the notes without special collateral, but secured by first lien on all the assets of the Association. Our "bank note" currency will thus, in time, consist of true credit notes. The Association may also issue $100,000,000 of notes under a tax of 3 per cent and further notes at rates of taxation running up to 6

per cent for all above $300,000,000. All the notes will be redeemed on presentation, and there will be a one-third reserve of gold or other lawful money. Bonds or bankable commercial paper will cover the other two thirds. The total issue is not to be limited by law, but only by the needs of business.

Such are the chief functions of the Reserve Association to be formed and operated by coöperation among the banks. Is the plan workable under actual business conditions? In view of the experiences of the early part of the last century, there is a presumption against any plan that would give a single institution any exclusive banking powers. The Reserve Association must rebut this presumption or it will not meet American needs. We shall not establish, or if we do establish, we shall not keep, any institution that fails to guard the individualism of American banking and the personality of American business. Whether or not the Aldrich system does guard them can be determined by considering how the banks will use it, if at all.

Who will Use the Association?

Few country banks will use the Association except in grave emergencies, if then. They will not withdraw funds from their existing reserve agents in order to deposit with the Association, for the reserve agents allow interest on deposits and the Association does not. The entire deposit balance of any national bank with the Association will be counted as part of its legal reserve, and it would, therefore, be theoretically feasible for a country bank to reduce its actual cash and deposit the amount of the reduction with the Reserve Association. But country banks have no cash to spare. The present required reserve of lawful money is only six per cent of deposits, and that does not equal till money requirements. They always hold more. The early fall statements of the last four years show that the lawful money held by country national banks exceeded legal requirements by the following percentages:

August 22, 1907,	the surplus	was	26	per cent	of the	amount	required.
September 23, 1908,	"	"	39	"	"	"	"
September 1, 1909,	"	"	29	"	"	"	"
September 1, 1910,	"	"	21	"	"	"	"

Like results could be obtained from the figures of other years.[3]

[3] Calculated from table on page 298, *Report of the Comptroller of the Currency*, 1910.

The figures for 1908 indicate unusual cash accumulations due to a lively memory of the preceding year, and in part to dull trade; but, speaking generally, if the country banks hold lawful money from one fifth to two fifths above legal requirements, it is because they need the cash on hand, and cannot afford to deposit the surplus with city banks at two per cent. They are not likely to deplete their cash to open accounts with the Reserve Association, which pays no interest at all. Nor are they likely to sell it paper. Take, for illustration, the case of a country bank in the corn belt when cattle are going on full feed. When the bank's loanable funds are exhausted, what will it do to continue necessary accommodations to its customers? Cattle men require accommodation for months at a time, and the possibility of selling twenty-eight-day paper direct to the Association is not a practical resource. Will the bank ask the board of directors of its local Association to guarantee some of its cattle paper due within four months, in order that it may sell the paper to the Reserve Association? It is possible that even with the addition of the commission of the local Association it would find the Association discount rate, which will be uniform all over the country, lower than the rate of its own city bank correspondent. This may appeal to some country bankers in the far West. The country banker has known the city banker for years, however, meets him at the State Bankers' Convention, travels with him, every now and then, to the annual American Bankers' Convention, and calls on him in his office once or twice a year. They know and like each other. Besides personal acquaintance, the city banker has the further advantage of being in touch with the country banker's affairs through the daily remittances and drafts. The city bank correspondent can answer a request for rediscounts at once. The board of directors of the local Association must consider. Few country bankers will take their rediscounts elsewhere for any difference in rate that is likely to arise. In ordinary times, then, and in most localities, accommodations will be sought as now, from correspondents. The existence of a uniform Association rate may at times cause lower rates at reserve city banks than would otherwise obtain. A few country banks, at least, will join the Association, and others may follow later. We cannot now say more than that country banks may in time form the habit of using the facilities of the Reserve Association. It is improbable that they will form it soon.

City Banks and the Reserve Association

The city correspondents themselves, however, will they not seek the facilities of the Reserve Association? Yes, they will at least deposit with it. The money reserve required of banks in reserve cities, twelve and one half per cent of deposits, is in most seasons more than enough for actual working purposes. Every banker knows this, and it is indicated statistically by the following table:

Surplus Money Reserves of Reserve City Banks.[4]

August 22, 1907,	the	surplus	was	6	per	cent	of the	amount	required.
September 23, 1908,	"		"	13	"		"	"	"
September 1, 1909,	"		"	5	"		"	"	"
September 1, 1910,	"		"	3	"		"	"	"

The fact that they keep so close to the legal minimum indicates that the minimum is more than sufficient for current needs. Reserve city banks, therefore, ordinarily have surplus cash, and will undoubtedly be glad to deposit it with the Reserve Association. They would be spared some care, and they would be glad so cheaply to establish relations with a powerful discount organization. Would these banks rediscount with the Association? Ordinarily not. They would certainly continue to rediscount with their correspondents in the central reserve cities, New York, Chicago, and St. Louis, chiefly, of course, New York. As the reserve city banker knows his country customers, so the metropolitan banker knows the bankers of the reserve cities. He meets them at bankers' conventions and committee meetings. They discuss the politics of the bankers' associations. They play golf together. They are in almost daily correspondence over the standing of banks, merchants and manufacturers. If a Kansas City banker, for instance, wants to build up his reserve, he will probably send paper to his Chicago or New York friends, rather than to the Kansas City branch of the Reserve Association, where the board of directors will include several of his competitors; but he will be glad to have the discount facilities of the Association in reserve, and will not hesitate to use them when his correspondents indicate that they are "loaned up."

Where will the Reserve Association get its business? The deposit business will come from the government, from the reserve city banks, and from the banks of the three central reserve cities.

[4] Calculated from table on page 297, *Report of the Comptroller of the Currency,* 1910.

From their money reserves of say, $400,000,000 the central reserve banks can spare large sums for deposit. In the reserve of the Association, the reserves of all the large banks of the country will be at last combined. The discount business of the Association will come mainly from the central reserve banks, since the discount requirements of the country converge upon them,—really upon the New York banks. It will be an immense relief to have at hand an institution able to discount good trade paper without limit.

The Increased Facilities of Member Banks

The great service of the Association will be that it will increase the facilities of its member banks. Every country bank will know that as long as it can send good paper arising out of actual commercial transactions, its reserve city correspondent will be able to take its paper, because the correspondent can have the same facilities in St. Louis, Chicago, or New York. Of course, if the reserve city banker sees indications that his country customer is overtrading, he will, from prudence, decline further credit, or suggest that the country banker take in sail. The metropolitan banks will watch their reserve city accounts in the same way, and finally the Reserve Association itself must and will prevent over-discounting in the central reserve cities. By watching a diminishing ratio of cash to demand liabilities, with a growing volume of Reserve Association notes presented for redemption, the Executive Committee will have a sure index of expansion, and by advancing the discount rate, after the effective practice of European banks, it can check overtrading in season.

If reserve or central reserve banks, through embarrassment or panic, decline good trade paper, their city or country customers will be able to go to the Reserve Association, directly with paper of twenty-eight days or less, or through the local Association with longer paper. While this is a slower process than dealing through correspondents, it would be effective. In any emergency that made such a process necessary, the local Associations would meet frequently, and the manner of election of their directors makes it perfectly sure that the board would be competent and willing to guarantee good paper, if necessary, up to half the capital and surplus of all its members, which is the high limit of its powers. How could the Reserve Association, however, extend credit without limit? Because it has the power of issuing, without limit, what are practically legal tender notes. It is conceivable that discounts and

note issues might be carried to excess, but so improbable that it cannot be called a danger. In the first place, the method of selection of directors and officers will infallibly result in the selection of representative, experienced and able men. In the next place, these men will be under no temptation to overbank, for the limit of profits to the stockholding banks is five per cent. Finally, their reputations will be at stake and they will not risk participation by the Association in such overtrading as might bring disaster.

It is the practically unlimited issue powers of the European central banks that enable them to keep credit always open at a price. So, if our banks coöperate to establish a Reserve Association of America, there will always be one place at least where they can market the paper of commerce. They can always replenish depleted reserves by selling their paper for the notes of the Association or for credit on its books. If the banks have been over lenient with commerce, have followed their customers too far in trade boom and speculation, they will pay the price in the high rates the Association must charge to repress the speculative spirit, but we shall not again see credit paralyzed and industry dead.

The Circulation Tax

It is a proper safeguard that on an increased volume of note issue the Association is to pay an increased tax. The details of this arrangement can be improved. The initial tax of 3 per cent on the first notes issued above the amount of issue taken over with the purchase of 2 per cent government bonds is too high. There should be at least a moderate volume of Association notes available at a rate of taxation not exceeding the traditional rate paid in this country on the accounts of banks, 2 per cent, and in time of real business stagnation, the rate might be lower yet. The rate should not be jerked up arbitrarily and awkwardly on each $100,000,000 increment. Sometimes it might be good business to circulate $300,000,000 additional notes under a tax of, say, 2 per cent. At other times the issue of even $100,000,000 might increase the liabilities of the Association very unwisely. It is the percentage of cash reserves that must be watched. Why not let the rate of taxation on the notes bear a direct relation to the reserves held against current liabilities? Beginning with a very low tax when the accumulations of reserves were so heavy as to indicate trade depression, the taxes on notes ought to increase as

reserves fall, so that while still available as a resource, the issue of the notes in time of expansion would be costly enough to insure proper advances of the discount rate. Then only those in real need of credit would apply for it. The following table is not a proposal of the rates to be established, but merely a way of indicating a method by which the proper rates could be worked out.

With	reserves	of	60	per	cent,	tax	"additional"	notes	1	per cent.
"	"	"	55	"	"	"	"		$1\frac{1}{2}$	"
"	"	"	50	"	"	"	"		2	"
"	"	"	45	"	"	"	"		3	"
"	"	"	40	"	"	"	"		4	"
"	"	"	35	"	"	"	"		5	"
"	"	"	$33\frac{1}{3}$	"	"	"	"		6	"
"	"	"	30	"	"	"	"		7	"

The Capital of the Association

The size of the Association's capital is less important than its issue powers. In several European countries other banks are larger than the central banks. The capital of all the national banks of the country is about $1,000,000,000. If all the banks became members of the Association, it would have a capital of $200,000,000, one-half paid. If the writer is correct in thinking that the country banks would find their chief advantage in the enlarged and assured facilities of their correspondents, it is probable that the country banks would not soon join the Association in large numbers. They might join. The words on the window, "Member of the Reserve Association of America," would carry some such prestige as the words "United States Depositary" carry now, and many banks become United States Depositaries for no other reason. At any rate, practically all of the national banks in all of the large cities will join the Association. The central reserve banks will enter from strong need, and the other reserve banks from the desirability of keeping such a connection open. The former will subscribe say, $36,000,000 of capital; the latter, say, $48,000,000. Add some of the large country banks, and we shall have a capital of $90,000,000. The $45,000,000 paid up will be ample for present operations, and will grow if the Association has the success the present writer anticipates for it.

We made it a condition of acceptance that the Reserve Association must guard the personality and the individualism of American banking. That condition is fulfilled. Allowing great weight to numbers, preserving the relations of the country banker with his

city friends and making those relations potentially more useful, yet providing a new and ample source of credit in emergency, it is the country banker who is the first beneficiary of the Aldrich plan.

Is an Association Necessary?

Could the same result of assured credit in the legitimate conduct of business be secured without the organization of a new institution? Many have thought, and until recently the writer has thought, that a reorganization of our bank note currency would meet every need. Improvement would certainly be possible in that way. If instead of bonds the notes were based on commercial paper and on a safety fund derived from taxation of the notes, with proper arrangements for issue and retirement, we should have a currency that in usual times would adjust itself perfectly to business. It would furnish a sufficient reserve of credit for ordinary seasonal needs. The notes, however, would almost necessarily be limited in volume to the respective capitals of the individual banks that issued them. The total amount permissible would probably, indeed, be more than any central institution would ever be called upon to issue. In the absence, however, of a general system of branch banking, it is not clear that the capital of any one bank would be large enough to give it issue powers that would be ample at all times. In Canada a bank now and then reaches its issue limit. If fear arose that a great bank, say in New York, might exhaust its issuing power, and so its reserve of credit, the very fear would probably bring about its own realization. There would still be a lack of a full measure of coöperation. Individual banks would still occasionally exhaust their power to extend credit, with the old results of panic and depression; while, perhaps less frequently than before, credit would sometimes break down. Is it necessary to recall what that means? It means St. Louis and Chicago and Kansas City and all the rest fighting each other for the currency which will not go around. It means cities, yes, whole sections of the country, unable to pay their debts or collect their credits because banks and individuals will not part with their hoarded currency, and have no exchange to sell. Business ceases; building stops; failure reacts upon solvency; and well considered enterprises go to wreck. It is paralysis and collapse.

But why cannot the banks sell exchange and permit the col-

lection and payment of debts? It is because the breakdown of credit stops the movement of commodities, and there are no sales of cattle or grain against which to draw exchange. Nor is there any place where balances can be created by the sale of trade paper. That is all we ever need to keep domestic exchanges open. All our cities had plenty of trade paper in 1907. If they could have sold it for book credit or for credit notes, country merchants could have paid city merchants, city merchants could have paid the manufacturers, the manufacturers could have paid wages, and so have prevented the death of industry. The breakdown of credit must be hereafter impossible. The Reserve Association of America will provide modern industry with that which alone will assure its continuity; a reserve of credit, coöperative, unified and practically unlimited.

Other Features

It would be interesting to consider other features of the plan under discussion,—the provisions for branches of the Association abroad, and the investments permitted in foreign bills and in bonds of foreign governments. It would be of interest also to compare and contrast the scheme of the Associations, local, district and Reserve, with the organization of agricultural credit in France and Germany, and perhaps with some of Mr. Fowler's suggestions. The arrangements we thus pass over make the Reserve Association a complete and sufficient institution, and foreign analogies give to the new American project the authority of success. Nor, although they are wise, can we consider here the suggestions for new classes of national banks, some to do business abroad, others to receive savings and make loans on real estate, others to be in effect national trust companies. If worked out in detail and adopted, these proposals would give us institutions of wider scope and usefulness than similar institutions we now have operating under the laws of one or the other of the states, and so necessarily restricted in scope. We must pass over, too, the provision for the establishment by a national bank of branches in its own city. This is a most useful provision. In most cities not even state banks can establish branches, and there are centers of trade one, two or three miles from the post office that have not the banking facilities that exist in country towns of one hundred inhabitants.

It remains to consider a few specific criticisms and suggestions that have been made since the publication of the plan.

Suggestions and Criticisms

Some opponents have discussed the plan as if the Association were an organization to monopolize credit, with resultant power to oppress industry. It is nothing of the kind. It is an Association of individual banks to increase the facilities of the banks that join, who will, of course, use the increased facilities to aid industry, not to oppress it. There will be changes of detail, of course. It is unnecessary financially, and probably impossible politically, to limit the number of branches of the Reserve Association to fifteen. Business conditions would, for instance, make the establishment of a branch in Kansas City imperative, but Kansas City is in point of population only the twentieth city in the country. Rivalry between cities and between states is such that the number of branches will have to be considerably increased above the fifteen originally proposed.

The question of division of profits between the stockholding banks and the government, and the related question of maximum surplus to be accumulated, will be much discussed. The provisions as they stand are that after the stockholders have received four per cent dividends, cumulative, one half the remaining profits shall go to the surplus of the Association, one fourth to the government of the United States, and one fourth to the stockholdng banks. After the stockholding banks have received five per cent dividends, however, one half the remaining earnings go to the government, and one half to the surplus. The surplus, however, is not to exceed twenty per cent of the paid in capital, and when it stands at that figure, all earnings above the five per cent dividend go to the government.

While at first thought it may be strange to limit to five per cent the profits that can ever be received by the banks that subscribe to this great Association, organized for the public good, the restriction is necessary. Without it, we should sometimes see an ambitious board of directors operating the Association for profit, carrying too much sail in time of threatened storm, adopting the theory that the banks and business interests of the country must themselves exercise the necessary foresight, and that if they failed to do so it was no fault of the Reserve Association, as long as the Association kept its loans and discounts good. It is not the object to establish another great money making bank in this country, but to create an Association of the existing banks that shall be under no

temptation, shall indeed be without the power, to make much money for its members, and, therefore, free and sure to grant or withhold its facilities as in a given business situation may seem best.

So, too, the surplus must be limited. Twenty per cent may not be a better limit than fifteen per cent or thirty per cent, but a limit there must be, and it should not be large. If it were possible for the institution to accumulate a surplus of one hundred per cent, we should hear the banks asking for dividends of five per cent on the whole, or ten per cent on the amount actually paid in by them. They would either get the increased dividends, which would involve some of the possibilities of trouble just pointed out, or some of them would withdraw from the Association, taking out the book value of their stock, and so weakening the Association financially and numerically.

State Banks and the Association

The suggestion heard recently, that state banks should be admitted to membership in the Association and given its facilities, is unwise. If the foregoing analysis of where the benefits of the Association would lie has been correct, the admission of state banks is entirely unnecessary. Few of them have great business with country banks. If they cared primarily for such business they would already have reorganized as national banks. They all have accounts now with large national banks, and depend upon them for assistance in times of stress. With the power of these national banks to render assistance greatly increased by the organization of the Association, it is unnecessary to give the state banks duplicate facilities, and it would certainly be unwise to introduce into the Association a class of banks that, however good their local supervision may be, are still outside the restrictions imposed by law upon the investments of national banks, and outside the supervision of the Comptroller of the Currency.

Perhaps those restrictions and that supervision could be extended to such state banks as might wish to become members of the Reserve Association, but they would just as soon reorganize as national banks and have done with it. But not many of the country banks will reorganize; they are either too small, or they need the greater liberty of investments. In the cities, however, some state banks may become national savings banks, if such banks are authorized, and thus save their right to lend on real estate. The trust companies, too, would almost all nationalize.

Many of the large state banks, whose commercial business and business from country banks constantly increase, will be converted into national banks for the prestige of membership in the Reserve Association, and for the possibility of increased discount facilities. The Association will thus considerably increase its membership and business by the admission of banks and trust companies leaving state systems for the national system. Taken the country over, however, the movement to convert will not be a wholesale one. We still need our state banking systems.

The plan now before the American people for consideration will enable our banks to place funds at any point where they may be called for by business or by occasional stress. The step bankers must take to carry out this plan is so short and natural that one is almost surprised that it has not been taken before. The plan does little but legalize what bankers have in the past managed to do very inefficiently with their existing, scattered organizations, and it gives to these and like organizations a means of coming together for the common good. The adoption of the plan fundamentally as it has been presented would make American banking a more stable occupation, and greatly increase its usefulness in the development of the American continent.

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